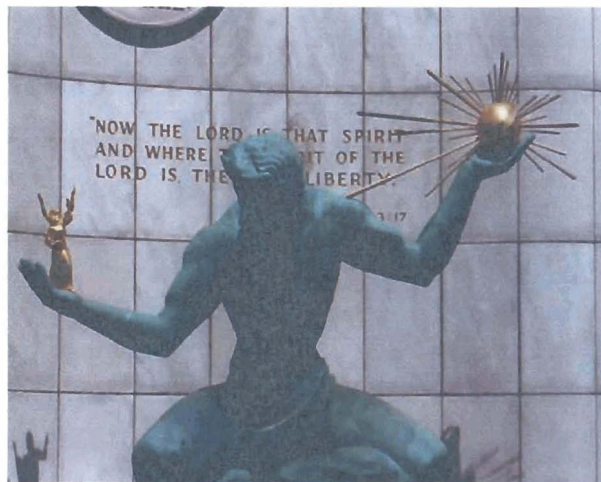


City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the
Department of Human Services**

September 2004



City of Detroit
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Joseph L. Harris, CPA, CIA
Auditor General

Sharon L. Gipson, CPA
Deputy Auditor General

MEMORANDUM

DATE: September 8, 2005

TO: Honorable City Council
Mayor Kwame M. Kilpatrick

FROM: Joseph L. Harris 
Auditor General

RE: Audit of the Department of Human Services

C: Shenetta Coleman, Executive Director

Attached for your review is our report on the audit of the Department of Human Services.

This report contains our audit purpose, scope, objectives, and methodology; background; status or prior recommendations; our audit findings and recommendations; our other noncompliance issue; and the agency's response.

We appreciate the cooperation and assistance that we received from the employees of the Department of Human Services.

This audit report and all other Auditor General reports can be obtained from our website at www.ci.detroit.mi.us/legislative/CharterAppointments/AuditorGeneral.

Department of Human Services

September 2004

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*Finding appeared in the prior audit report dated June 30, 1994.

AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose

This audit of the Department of Human Services was performed under the Office of the Auditor General's (OAG) charter mandate to audit financial transactions of all City agencies. The OAG performed an audit of the adequacy of internal control procedures for cash receipts, payroll, disbursements, fixed assets, revenue, and imprest cash.

Audit Scope

The OAG performed an assessment of the Department's control procedures for cash receipts, payroll, disbursements, fixed assets, revenue, and imprest cash transactions and determined there are certain weaknesses in the system of controls for the two-year period ended June 30, 2004. We focused our audit on the weaknesses discovered during the assessment, and the status of the prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

Audit Objectives

Our audit objectives were to evaluate the adequacy of the Department's internal controls over the major financial reporting processes and to determine whether the Department implemented the prior audit recommendations or otherwise resolved the findings.

Audit Methodology

To accomplish the audit objectives, our audit work included the following:

- A review of City ordinances and other pertinent information relating to the Department;
- Interviews with appropriate Department personnel; and
- Observation and testing of internal control processes and procedures.

BACKGROUND

The Department of Human Services is Michigan's largest Community Action Agency and provides a broad range of coordinated emergency and supportive services for low-income individuals and families through its network of service centers and grant funded programs.

Some of these programs and services include: an Emergency Food Program for clients in crisis situations who do not qualify for other assistance; distribution of U.S. Department of Agriculture surplus commodity food to low-income clients; a Home Weatherization Program which provides energy conservation services through home repairs, furnace replacement and insulation for income-qualified clients and emergency energy support through a heating bill payment assistance program; a Drug Treatment Program which provides effective treatment for drug addiction in order to reduce the number of active addicts.

Other services include: the administration of Head Start services in Detroit through contractual agreements with nine delegates in order to impact the intellectual, physical, mental health and nutritional aspects of learning among low-income pre-school children and their families; a Human Services Transportation Project for income-eligible Detroiters for priority trips to medical and social service agency appointments; emergency and supportive services provided to the homeless; and a Youth Activities program that secures resources and assists and supports youth services organizations interested in implementing programs that empower youth to achieve their highest potential.

Budgeted appropriations and employees for the past two fiscal years were as follows:

<u>Fiscal Year</u>	<u>Appropriations</u>	<u>Employees</u>
2002-2003	\$70,955,716	176
2003-2004	\$73,886,614	171

STATUS OF PRIOR RECOMMENDATIONS

Our previous report on the Department of Human Services (formerly Neighborhood Services Department) for the two years ended June 30, 1994 contained two recommendations. Of the two recommendations, one has been implemented. The Department has implemented a procedure and made the necessary adjustments to close out old open grant cost centers.

The Department has not complied with our prior audit recommendation to implement procedures to discontinue the current practice of splitting invoices to stay within the imprest cash dollar limitations and to follow procedures set forth within the Finance Department's Imprest Cash Manual. This audit finding is repeated in this report (Finding 3).

FINDINGS AND RECOMMENDATIONS

Finding marked with an asterisk (*) indicates that this finding and related recommendation appeared in the previous Auditor General report.

1. Deposit All Cash Receipts Within 48 Hours of Receipt

The Department does not deposit all cash receipts in a timely manner. During a one-year period, the Department made 22 deposits totaling \$17,949. The average weekly deposit was \$345. Deposits were made from a minimum of 5 days to a maximum of 23 days after date of receipt.

Finance Directive No. 20 requires the deposit of City cash receipts (e.g., all cash, checks and money orders) within 48 hours of receipt, unless a City agency obtains a waiver of this requirement from the Finance Department. When cash receipts, whether in the form of cash, checks or money orders, are not deposited on a timely basis, they become susceptible to loss, theft, or misappropriation.

The Department indicated it is not practical to deposit monies within 48 hours for the relatively small amounts of money it receives because it receives hundreds of receipts once a week from its three (3) clinics. Because of the volume of receipts, the Department takes up to two days to verify each clinic's prenumbered receipt, reconcile the deposit slips and prepare the deposit.

RECOMMENDATIONS

We recommend that the Department comply with Finance Directive No. 20 and deposit all cash receipts within 48 hours of receipt, or obtain a waiver of such requirement from the Finance Department.

We also recommend that the Department determine the feasibility of requiring each clinic to deposit the fees it collects, and forward a validated deposit slip along with the prenumbered receipts to the Department.

2. Reconcile Bank Accounts Promptly and Investigate and Resolve all Reconciling Items

Our examination of the Department's bank reconciliations disclosed that the Department did not complete its bank reconciliation for the CSBG Main Grant on a consistent and timely basis. The bank reconciliations for the months of March, April, and May of 2004 were not completed until August 2004. The bank reconciliation for the month of June 2004 was completed in September 2004. In addition, the Department does not investigate and resolve reconciling items in a timely manner.

The Main Grant Fund bank account is used to account for program activities related to the Community Service Block Grants, Emergency Food Assistance Programs, and operations of the Michigan Community Action Agency Program.

In addition, the bank reconciliations for the Community Program Fund, which accounts for program activities relating to the Home Weatherization Programs, includes significant reconciling items that were not adequately supported and explained. For example, the bank reconciliation as of June 30, 2004 contained an unreconciled difference amounting to \$784,657 or 93% of the adjusted book balance of \$842,772.

The items, which caused the majority of the unreconciled difference, include bank deposits made to the program bank account in Oct 2003 (\$88,032) and April 2004 (\$592,032) which were not recorded in the Detroit Resources Management System (DRMS). The program accountant was unable to explain why these bank deposits were not recorded in the DRMS. The Department explained that most of the large reconciling items result from either bookkeeping errors and/or timing differences caused by entries posted by employees of the City's Finance Department into the DRMS. However, these errors and timing differences should have been resolved and cleared by the time we performed our audit.

One of the major benefits of timely and properly prepared bank reconciliations is that it helps ensure prompt and accurate accounting of cash activity and reporting of cash position. Not performing the bank reconciliations in a timely manner and investigating and resolving reconciling items could result in the misappropriation of funds, erroneous cash balances and noncompliance with City policy.

City policy requires that the Department complete the bank reconciliation no later than 45 days after the end of the bank statement month. Finance Directive No. 20 requires that reconciling items or variances be investigated and appropriate action taken. Communications between the City Finance Department and Department of Human Services staff should be maintained in order to account for and resolve variances in a timely manner.

RECOMMENDATIONS

We recommend that the Department:

- a. Complete its bank reconciliations on a regular and timely basis in accordance with City policy;
- b. Investigate, resolve and properly account for any variances and reconciling items; and
- c. Adequately track and explain bookkeeping entries made by the Department.

***3. Comply with the Imprest Cash Manual Requirements**

Our examination of the Department's imprest cash fund disclosed several instances where items were purchased from the same vendor on the same day with invoice amounts over \$100 but not more than \$400. If the items had been included on the same invoice, the invoice amount would have been greater than \$400, and the Department would have been required to obtain a minimum of three quotes prior to purchasing the items.

Finance Directive No. 106 requires that the Department obtain three quotes for purchases over \$400. An authorized department representative must approve purchases over \$400.

Services or products may be more costly when invoices are split to avoid purchasing requirements and the practice negates the internal controls inherent within the approval process.

RECOMMENDATION

We recommend the Department obtain the required quotes and approval for all purchases in excess of \$400.

OTHER NONCOMPLIANCE ISSUE

In addition to the foregoing recommendations, we noted the following instance of noncompliance with established City policy:

1. The Department reimburses parking fees to its employees through its imprest cash fund, rather than through the mileage reimbursement process. Imprest Cash Fund policy prohibits reimbursement of recurring expenditures. Parking fees for employees with City cars can be reimbursed through the regular check request procedure with a signed parking receipt from the respective parking facility.

The Department should implement procedures to correct the condition and ensure compliance with established City policy.



ATTACHMENT A

August 30, 2005

Joseph L. Harris, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Harris:

The following presents the Department of Human Services' responses for the indicated findings and related recommendations in the Audit of the Department of Human Services dated September 2004, as prepared by the Office of the Auditor General.

Finding No. 1. Deposit all Cash Receipts Within 48 Hours of Receipt

Department's Response:

The Department will comply Finance Directive No. 20 and request a waiver from the Finance Department. The Department's Drug Treatment Program is not a contractor's clinic and DHS classified personnel collects all receipts.

Finding No. 2. Reconcile Bank Accounts Promptly and Investigate and Resolve All Material Reconciling Items.

Department's Response:

The Department for the year ending June 2005 completed its bank reconciliations in accordance with City policy. The investigation of variances requires coordination from other City departments, which sometimes results in time delays. This department is able to track and explain bookkeeping entries made by the department. The cases mentioned were not posted because the paper entries were misplaced by the system.

Finding No. 3 Comply with the Imprest Cash Manual Requirements.

Department's Response:

The will closely monitor Imprest Cash purchases to ensure that items requiring approval and quotes will adhere to Finance Directives.

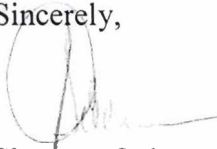
OTHER NONCOMPLIANCE ISSUE

1. The Department reimburses parking fees to its employees through its Imprest Cash fund, rather than through the mileage reimbursement process. Imprest Cash Fund policy prohibits reimbursement of recurring expenditures. City policy requires parking fees be reimbursed through the private car mileage reimbursement.

Department's Response:

The only employees reimbursed for parking through the Imprest Cash fund are employees who are assigned City vehicles and as such are ineligible for mileage reimbursement. Our interpretation of a recurring expenditure is one that can be predicted and occurs regularly. Our parking reimbursement expenditure does not fit this criterion. Employees who are required to attend meeting outside of the agency and cannot predict when paid parking is required.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Sheretta Coleman', with a horizontal line extending to the right.

Sheretta Coleman,
Executive Director